



Patricia M. French  
Senior Attorney

300 Friberg Parkway  
Westborough, Massachusetts 01581  
(508) 836-7394  
(508) 836-7039 (facsimile)  
[pfrench@nisource.com](mailto:pfrench@nisource.com)

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VIA HAND DELIVERY

Mary L. Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station – 2<sup>nd</sup> Floor  
Boston, MA 02110

Re: D.T.E. 06-07, Reply of Bay State Gas Company

Dear Secretary Cottrell:

Pursuant to the procedural schedule established by the Hearing Officer in this proceeding, Bay State Gas Company (“Bay State” or “the Company”) requests that the Department of Telecommunications and Energy accept this letter as Bay State’s reply to the Initial Brief filed by the Attorney General of the Commonwealth on May 16, 2006 (“Attorney General Br.”).

The Attorney General’s criticisms of Bay State’s proposal to acquire capacity and supply from Northeast Energy Associates (“NEA”) can be summarized as follows. First, the Attorney General holds the view that Bay State used a portfolio plan that is “stale” and not reflective of the current resource needs of Bay State, and that, in addition, Bay State departed from its approved plan. Attorney General Br. at 5, 7. The Attorney General also disputes Bay State’s assertion that it is appropriate for Bay State to file its next long-range forecast and supply plan (“IRP”) in October of 2006. Attorney General Br. at 6. Second, the Attorney General asserts that were NEA to assign all upstream capacity to Bay State, Bay State has not demonstrated that such contingency is consistent with Bay State’s resource plan and objectives. Attorney General Br. at 8.

The Attorney General is mistaken in both his arguments. In this proceeding Bay State provided an updated forecast that demonstrates a lower growth rate than the forecast approved in D.T.E. 02-75, where the Department reviewed Bay State’s most recent IRP. Even with this lower growth rate, the evidence in this proceeding indicates that the NEA supply is clearly needed. Updating the forecast is clearly consistent with the planning criteria approved by the Department, and constitutes a reasonable method of accommodating changes between the filing of long-range resource plans. The Department regularly examines such updates and accepts them in proceedings held between the filing of IRPs. Bay State updated its growth rate here because such action is consistent with the analysis of Bay State’s most recent customer load data. Bay State’s

planning process has always begun with an assessment of customer requirements based on up-to-date forecasts. Exh. BSG-1 at 12. In its 2002 IRP filing (D.T.E. 02-75), Bay State confirmed that any decision to modify the resource portfolio should begin with a determination of need based on the current resources under contract and current demand forecasts. Further, Bay State's use of up-to-date forecasts is not only central to its capacity and supply planning but is also used for its gas adjustment factors, or GAFs, which are filed every six months with the Department. Nothing Bay State has provided in this docket reflects a departure of any kind from prudent resource planning. The NEA acquisition is consistent with the public interest and has been demonstrated to be so in this proceeding.

Moreover, the Attorney General has misstated the manner in which the Department confirms that an acquisition is consistent with a gas company's portfolio objectives. Attorney General Br. at 5. In justifying an incremental resource acquisition, a company may refer to the most recently approved forecast, a recent review of similar contracts under M.G.L. c. 164, sec. 94A, and/or the filing accompanying the resource proposal being considered (this would be an updated resource analysis). See, KeySpan Energy Delivery New England, D.T.E. 04-9 (2005). Clearly, the most recently approved IRP forecast is not the only basis upon which a resource proposal may be justified. Bay State's use of supporting testimony and a comprehensive, up-to-date portfolio analysis, including an analysis of available alternatives, is reasonable and demonstrates the acquisition is in the public interest.

With regard to the Attorney General's critique of Bay State's consistency with its approved planning methods, the Company utilized a comprehensive RFP process and cost and non-cost criteria consistent with its prior portfolio decisions to establish that the NEA supply was the best-cost resource. This exhaustive process is designed to identify the most competitive of the available resources in the market. The Attorney General cannot now criticize the sufficiency of a process that is clearly in concert with the plan set forth by Bay State in its approved IRP and one that historically has been endorsed by the Attorney General.

With regard to the Attorney General's argument that Bay State "violated" the two (2) year forecast filing period, Bay State will file its IRP in October 2006, two (2) years after the Department's order on reconsideration in D.T.E. 02-75, which constituted the final order subject to appeal in that proceeding. Bay State Gas Company, D.T.E. 02-75-A (Oct. 22, 2004). Precisely because its orders were silent on the date of the next filing, Bay State sought guidance on this point and the Department indicated that Bay State's next IRP filing would be due in October 2006.

Finally, Bay State demonstrated that even with the acceptance of upstream capacity from NEA, the total portfolio costs are still significantly less than they would be

with any of the alternative resources. Exh. AG-1-10. As demonstrated in the response to AG 1-10, the acceptance of upstream capacity from NEA resulted in an incremental \$2.9 million in total portfolio costs (excluding any capacity release values) over the five-year period as compared to the NEA supply option. Since the NEA supply option resulted in total portfolio cost savings of \$17.3 million over the five-year period as compared to any of the alternative resources, it stands to reason that even with the acceptance of capacity, the total portfolio cost is still more than \$14 million (\$17.3 - \$2.9) less than any of the alternatives over the five-year period. The Attorney General's critique in this regard has no merit.

Accordingly, for all these reasons, the Attorney General's concerns should be given little weight and the Company's request approved under G.L. c. 164, sec. 94A, as consistent with the public interest.

Please do not hesitate to telephone me with any questions whatsoever.

Very truly yours,

Patricia M. French

*Also appearing in this docket:*

Robert L. Dewees, Jr.  
NIXON PEABODY LLP  
100 Summer Street  
Boston, MA 02110  
(617) 345-1316

cc: Andrew O. Kaplan, Esq., General Counsel, DTE (for Denise Desautels, Hearing Officer)  
Andreas Thanos, Assistant Director, Gas Division, DTE  
Ken Dell Orto, Analyst, Gas Division, DTE  
Jamie M. Tosches, Assistant Attorney General, Office of the Attorney General  
Service List, D.T.E. 06-07